

CRESCENT ACADEMY
Report on Financial Statements
(with required supplementary and additional information)
For the Fiscal Year Ended
June 30, 2007

**Crescent Academy
Financial Report
For the Fiscal Year Ended
June 30, 2007**

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Independent Auditors' Report

Board of Directors
Crescent Academy
17570 W. 12 Mile Rd.
Southfield, MI 48076

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Crescent Academy as of and for the year ended June 30, 2007, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Charter Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the Standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Crescent Academy as of June 30, 2007 and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2007, on our consideration of Crescent Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and

compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages v through xii and 22 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Crescent Academy's basic financial statements. The additional information on page 23 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

DARNELL & MEYERING, P.C.



November 1, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Crescent Academy's (academy) annual financial report presents our discussion and analysis of the public school academy's financial performance during the fiscal year that ended on June 30, 2007. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

Financial Highlights

- The academy's fund balance decreased by \$84,413.
- Blended enrollment used for state aid purposes was 308 in June 2007 up from 215 in June 2006.
- The academy increased its assets by 5,006,641 with the purchase of their building.

Overview of the Financial Statements

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the academy.

The first two statements are academy-wide financial statements that provide both short-term and long-term information about the academy's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the academy, reporting the academy's operations in more detail than the academy-wide statements.

The governmental funds statements tell how basic services like regular education were financed in the short-term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the academy's budget for the year. Figure A-1 shows how the various parts of the annual report are arranged and related to one another.

Figure A-1 Organization of Crescent Academy Annual Financial Report

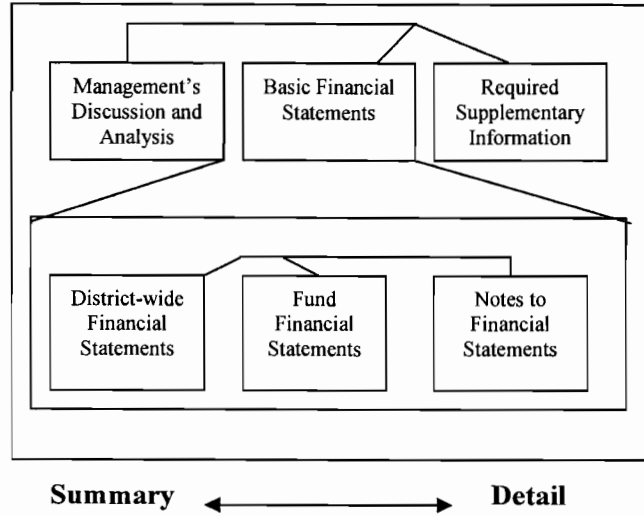


Figure A-2 summarized the major features of the academy's financial statements, including the portion of the academy's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

Figure A – 2 Major Features of the Academy-Wide and Fund Financial Statements

	Academy-wide statements	Fund Financial Statements
		Governmental funds
Scope	Entire academy (except fiduciary funds)	All activities of the academy that are not fiduciary
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable

Academy-wide statements

The Academy-wide statements report information about the academy as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the academy's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Academy-wide statements report the academy's net assets and how they have changed. Net assets – the difference between the academy's assets and liabilities, are one way to measure the academy's financial health or position.

- Over time, increases or decreases in the academy's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the academy, you need to consider additional non-financial factors such as changes in the academy's enrollment, the condition of school buildings and other facilities, and the academy's ability to be competitive with other public school academies and area school districts.

Fund financial statements

The fund financial statements provide more detailed information about the academy's funds, focusing on its more significant or "major" funds – not the academy as a whole. Funds are accounting devices the academy uses to keep track of specific sources of funding and spending on particular programs:

Governmental activities – The academy's basic services are included in the general fund, such as regular and special education and administration. State foundation aid finances most of these activities.

The academy has one kind of fund:

Governmental fund – Most of the academy's basic services are included in governmental funds which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the academy's programs. Because this information does not encompass the additional long-term focus of the academy-wide statements, we provide additional information with the governmental funds statement that explains the relationship (or differences) between them.

Financial analysis of the academy as a whole

Net assets - the academy's combined net assets were \$(725,015) on June 30, 2007. See Figure A – 3.

The total revenues were \$2,582,853. State aid foundation allowance included in revenue from state sources accounts for 80 percent of the academy's revenue.

The total cost of instruction was \$970,146. The total cost of support services were \$1,634,387.

The food service had an excess of expenditures over revenues of \$11,201 in 2007. The general fund transferred \$11,201 to the food service fund.

The academy spent \$84,418 of its fund balance reducing the fund to \$34,325.

The academy purchased its building located at 17570 West 12 Mile Road, Southfield MI.

Academy governmental activities

Figure A-3 Crescent Academy		
	2007	2006
Current assets	\$ 1,177,118	\$ 998,024
Noncurrent assets	1,128,036	-
Capital assets	5,372,215	365,574
Total assets	7,677,369	1,363,598
Current liabilities	1,312,384	1,139,528
Noncurrent liabilities	7,090,000	468,911
Total liabilities	8,402,384	1,608,439
Net assets (deficit):		
Invested in capital assets, net of related debt	1,247,047	40,429
Restricted - Debt service	522,513	-
Unrestricted	(481)	(285,270)
Total net assets (deficit)	\$ (725,015)	\$ (244,841)

Figure A-4
Changes in Crescent Academy's Net Assets

	2007	2006
Revenues:		
Program revenues:		
Federal and state categorical grants	\$ 242,600	\$ 347,882
General revenues:		
State aid - unrestricted	2,262,836	1,542,697
Investment	49,164	2,760
Charges for services	26,621	32,375
Other	1,632	2,640
Total revenues	<u>2,582,853</u>	<u>1,928,354</u>
Expenses:		
Instruction	970,146	769,514
Support services	1,634,387	1,231,054
Food Services	68,013	37,557
Community services	11,481	13,586
Interest expense	332,333	75,145
Unallocated depreciation	46,667	36,762
Total expenses	<u>3,063,027</u>	<u>2,163,618</u>
Change in net assets	<u>\$ (480,174)</u>	<u>\$ (235,264)</u>

General fund budgetary highlights

Over the course of the year, the academy revised the annual operating budget two times. These budget amendments fall into several categories:

Changes were made in the second and fourth quarters to account for student enrollment counts, federal funds, and changes in assumptions (e.g. staffing changes, instructional, transportation, community services) since the original budget was adopted.

While the academy's final budget for the general fund anticipated expenditures would exceed revenue by \$91,022 the actual results for the year showed expenditures over revenue of \$84,418.

Capital asset and debt administration

Capital assets

By the end of the year ended June 30, 2007, the academy had invested \$5,613,736 in capital assets consisting primarily of its building, computers, software, furniture and fixtures. Information about capital assets can be found in Note 5 to the financial statements. Total accumulated depreciation was \$241,521.

The Academy's capital assets are as follows:

Figure A-5
Crescent Academy's Capital Assets

	Cost	Accumulated Depreciation	2007 Net Book Value	2006 Net Book Value
Land	\$ 287,960	\$ -	\$ 287,960	\$ -
Computer equipment	219,685	114,143	105,542	129,907
Furniture and fixtures	239,449	21,661	217,788	140,812
Building improvements	152,182	11,428	140,754	94,855
Building	4,714,460	94,289	4,620,171	-
Total	<u>\$ 5,613,736</u>	<u>\$ 241,521</u>	<u>\$ 5,372,215</u>	<u>\$ 365,574</u>

Facilities lease obligation

The academy paid \$200,000 for facilities lease obligations during the 2007 school year. This amount was reduced from previous year because the school purchased its building in January 2007.

Long-term debt

At year end the Academy had \$7,190,000 in capital leases and COP's. (More detailed information about the Academy's long-term liabilities is presented in Note 6 to the Financial Statements).

Figure A-6
Crescent Academy's Outstanding Long-term Debt

	2007	2006
Capital Leases	\$ 100,000	\$ 727,259
Certificate of Participation	7,090,000	-
Total	<u>\$7,190,000</u>	<u>\$ 727,259</u>

Factors bearing on the academy's future

At the time these financial statements were prepared and audited, the academy was not aware of existing circumstances that could significantly affect its financial health in the future.

Contacting the academy's financial management

This financial report is designed to provide our students, parents and creditors with a general overview of the academy's finances and to demonstrate the academy's accountability for the money it receives. If you have questions about this report or need additional information, contact the academy's office at 17570 West Twelve Mile Road, Southfield, MI 48076.

Crescent Academy
Statement of Net Assets
June 30, 2007

Assets	<u>Governmental Activities</u>
Current assets:	
Cash and equivalents	\$ 719,472
Receivables:	
Accounts receivable	1,125
Other governmental units	449,789
Deposits	3,913
Prepaid expenses	2,819
Total current assets	<u>1,177,118</u>
Noncurrent assets:	
Investments - debt service	557,298
Investments - capital projects	15,763
Issuance costs, net of amortization	554,975
Capital assets	5,613,736
Less accumulated depreciation	<u>(241,521)</u>
Total noncurrent assets	<u>6,500,251</u>
Total assets	<u><u>\$ 7,677,369</u></u>
Liabilities And Net Assets (Deficit)	
Current liabilities:	
Accounts payable	\$ 92,428
Accrued oversight fees	12,772
Accrued interest	43,093
Revenue anticipation notes	1,064,091
Current portion of long term obligations	<u>100,000</u>
Total liabilities	<u>1,312,384</u>
Noncurrent liabilities:	
Noncurrent portion of long term obligations	<u>7,090,000</u>
Total noncurrent liabilities	<u>7,090,000</u>
Total liabilities	<u>8,402,384</u>
Net assets (deficit):	
Invested in capital assets - net of related debt (deficit)	(1,247,047)
Restricted - debt service	522,513
Unrestricted (deficit)	<u>(481)</u>
Total net assets (deficit)	<u>(725,015)</u>
Total liabilities and net assets (deficit)	<u><u>\$ 7,677,369</u></u>

See notes to financial statements.

Crescent Academy
Statement of Activities
Year Ended June 30, 2007

Functions/programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants & Contributions	Net (expense) Revenue and Changes in Net Assets
Governmental activities:				
Instruction	\$ 970,146	\$ -	\$ 185,788	\$ (784,358)
Support services	1,634,387	-	-	(1,634,387)
Food services	68,013	6,451	50,361	(11,201)
Community services	11,481	26,621	-	15,140
Interest expense	332,333	-	-	(332,333)
Unallocated depreciation and amortization	46,667	-	-	(46,667)
Total governmental activities	<u>\$ 3,063,027</u>	<u>\$ 33,072</u>	<u>\$ 236,149</u>	(2,793,806)
General revenues:				
State of Michigan school aid unrestricted				2,262,836
Investment revenue				49,164
Miscellaneous				1,632
Total general revenues				<u>2,313,632</u>
Change in net assets (deficit)				(480,174)
Net assets, beginning of year (deficit)				<u>(244,841)</u>
Net assets, end of year (deficit)				<u>\$ (725,015)</u>

See notes to financial statements.

**Crescent Academy
Balance Sheet
Governmental Funds
June 30, 2007**

	General Fund	Debt Service Fund	Capital Projects Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Assets:					
Cash and equivalents	\$ 719,472	\$ -	\$ 448	\$ -	\$ 719,920
Receivables:					
Accounts receivable	1,125	-	-	-	1,125
Other governmental units	449,789	-	-	-	449,789
Deposits	3,913	-	-	-	3,913
Prepaid expenditures	2,819	-	-	-	2,819
Investments-restricted	34,785	522,513	15,315	-	572,613
Total assets	<u>\$ 1,211,903</u>	<u>\$ 522,513</u>	<u>\$ 15,763</u>	<u>\$ -</u>	<u>\$ 1,750,179</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 92,428	\$ -	\$ -	\$ -	\$ 92,428
Accrued oversight fee	12,772	-	-	-	12,772
Accrued interest	8,287	-	-	-	8,287
Revenue anticipation notes	1,064,091	-	-	-	1,064,091
Total liabilities	<u>1,177,578</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,177,578</u>
Fund balances:					
Reserved for debt service	34,785	522,513	-	-	557,298
Reserved for capital projects	-	-	15,763	-	15,763
Reserved for deposits	3,913	-	-	-	3,913
Reserved for prepaid expenditures	2,819	-	-	-	2,819
Unreserved, undesignated	(7,192)	-	-	-	(7,192)
Total fund balances	<u>34,325</u>	<u>522,513</u>	<u>15,763</u>	<u>-</u>	<u>572,601</u>
Total liabilities and fund balances	<u>\$ 1,211,903</u>	<u>\$ 522,513</u>	<u>\$ 15,763</u>	<u>\$ -</u>	<u>\$ 1,750,179</u>

Total governmental fund balances	\$	572,601
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are financial resources and are not reported in the funds		
The cost of capital assets is	\$	5,613,736
Accumulated depreciation is	<u>(241,521)</u>	<u>5,372,215</u>
Debt issuance cost	564,880	
Accumulated amortization	<u>(9,905)</u>	<u>554,975</u>
Long term liabilities are not due and payable in the current period and are not reported in the funds		
Certificate of Participation		(7,090,000)
Capital lease obligations		<u>(100,000)</u>
Accrued interest payable is not included as a liability in governmental funds		<u>(34,806)</u>
Net deficit of governmental activities	\$	<u><u>(725,015)</u></u>

See notes to financial statements

Crescent Academy
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2007

	General Fund	Debt Service Fund	Capital Projects Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
Local sources	\$ 43,634	\$ 10,914	\$ 22,869	\$ 6,451	\$ 83,868
State sources	2,340,533	-	-	1,419	2,341,952
Federal sources	108,091	-	-	48,942	157,033
Total revenues	2,492,258	10,914	22,869	56,812	2,582,853
Expenditures:					
Current:					
Instruction:					
Basic programs	887,575	-	-	-	887,575
Added needs	134,849	-	-	-	134,849
Total instruction	1,022,424	-	-	-	1,022,424
Support services:					
Pupil	37,301	-	-	-	37,301
Instructional staff	6,407	-	-	-	6,407
General administration	348,062	-	-	-	348,062
School administration	277,033	-	-	-	277,033
Business	363,950	-	564,880	-	928,830
Operations/maintenance	622,024	-	5,002,420	-	5,624,444
Transportation	236,288	-	-	-	236,288
Central	31,448	-	-	-	31,448
Total support services	1,922,513	-	5,567,300	-	7,489,813

Expenditures (concluded):				
Current (concluded):				
Food Service	-	-	-	68,013
Community service	11,481	-	-	11,481
Debt service:				
Principal retirements	-	-	727,259	727,259
Total expenditures	2,956,418	-	6,294,559	9,318,990
Excess (deficiency) of revenues over expenditures				
	(464,160)	10,914	(6,271,690)	(6,736,137)
Other financing sources (uses):				
Operating transfers out	(11,201)	(10,914)	(802,547)	(824,662)
Operating transfers in	290,948	522,513	-	824,662
Lease proceeds	100,000	-	-	100,000
Financing proceeds	-	-	7,090,000	7,090,000
Total other financing sources (uses):	379,747	511,599	6,287,453	7,190,000
Net change in fund balances	(84,413)	522,513	15,763	453,863
Fund balances:				
Beginning of year	118,738	-	-	118,738
End of year	\$ 34,325	\$ 522,513	\$ 15,763	\$ 572,601

See notes to financial statements

CRESCENT ACADEMY
Notes to the Financial Statements
June 30, 2007

Note 1. Summary of Significant Accounting Policies

The accounting policies of Crescent Academy conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Academy.

A. Reporting Entity

Crescent Academy is a public school academy. A public school academy is a Michigan Public School System Under Public Act No. 362 of 1993 and is subject to the leadership and general supervision of the State Board of Education. Bay Mills Community College is the authorizing body of the Academy and has contracted with the Academy confirming the status of the public school academy. The contract with Bay Mills expires on June 30, 2012. Crescent Academy's school board is approved by the authorizing body and is authorized to manage the property and affairs of the Academy. The Academy does not include any component unit within its financial statements as defined in Governmental Accounting Standards Board Statements Nos. 14 and 39.

B. Charter-Wide and Fund Financial Statements

Measurement focus, basis of accounting, and financial statement presentation

CHARTER-WIDE STATEMENTS

The charter-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Academy. For the most part, the effect of interfund activity has been removed from these statements. The charter-wide financial statements categorize primary activities as either governmental or business type. All of the Academy's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school Academy and other unrestricted items are not included as program revenues but instead as *general revenues*.

CRESCENT ACADEMY
Notes to the Financial Statements
June 30, 2007
(Continued)

In the charter-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Academy's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The Academy first utilizes restricted resources to finance qualifying activities.

The charter-wide statement of activities reports both the gross and net cost of each of the Academy's functions. The functions are also supported by general government revenues (State Foundation Aid, certain intergovernmental revenues, investment income and other revenue). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (State Foundation Aid, intermediate Academy sources, interest income and other revenues).

The Academy does not allocate indirect costs.

This charter-wide focus is more on the sustainability of the Academy as an entity and the change in the Academy's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The charter-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private—sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the charter-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

CRESCENT ACADEMY
Notes to the Financial Statements
June 30, 2007
(Continued)

FUND BASED STATEMENTS

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, if any, are recorded only when payment is due.

State and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Academy.

The Academy reports the following major fund:

The *general fund* is the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.

The *debt service fund* accounts for the servicing of the Academy's Certificates of Participation (COP). COPs are classified as long-term debt instruments that are required to be maintained in a separate fund with its own bank account.

The *capital projects fund* accounts for amounts received from financing funds to construct buildings. It also accounts for the construction costs and their disbursements throughout the construction period.

Additionally, the Academy reports the following non-major fund type;

Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specific purposes.

The school service funds are special revenue funds that separate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The Academy maintains full control of these funds. The school *service fund* maintained by the Academy is the *food service fund*.

CRESCENT ACADEMY
Notes to the Financial Statements
June 30, 2007
(Continued)

As a general rule, the effect of interfund activity has been eliminated from the charter-wide financial statements except for any accounts due to or due from the special revenue fund as related to the other governmental funds.

C. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The Academy's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. The Academy reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the academy intends to hold the investment until maturity.

State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. Banks, and mutual funds composed of investments as outlined above.

2. Receivables

The State of Michigan utilizes a foundation grant approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to charter schools based on information supplied by the schools. For the year June 30, 2007 the foundation allowance was based on the pupil membership counts taken in September of 2006 and February of 2006.

CRESCENT ACADEMY
Notes to the Financial Statements
June 30, 2007
(Continued)

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sale and other taxes. The state revenue is recognized during the foundation period and is funded through payments from October 2006 to August 2007. Thus, the unpaid portion at June 30 is reported as state aid receivable.

The Academy also receives revenue from the State to administer certain categorical education programs. State rules required that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year, are recorded as deferred revenue.

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

3. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the charter-wide and fund financial statements.

4. Fund Equity Balance

The unreserved fund equity balances for governmental funds represent the amount available for budgeting future operations. The reserved fund equity balances for governmental funds represent the amount that has been legally identified for specific purposes or indicates that a component of assets does not constitute "available spendable resources". The designated fund equity balances for governmental funds represent tentative plans for future use of financial resources.

5. Capital Assets

Capital assets include property, plant, and equipment which are reported in the applicable governmental activities column in the charter-wide financial statements. Capital assets are defined by the Academy as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The Academy does not have infrastructure type assets.

CRESCENT ACADEMY
Notes to the Financial Statements
June 30, 2007
(Continued)

Depreciation on all assets is provided using the straight-line method over the following useful lives:

Computers	3-5 years
Furniture, fixtures and equipment	20 years
Leasehold improvements	10-25 years
Building	25 years

6. Use of Estimates

The process of preparing general purpose financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Note 2. Stewardship, Compliance and Accountability

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America, except for capital outlay, which is reported in the function or activity it services. An annual appropriated budget is adopted for the general fund and food service fund. All annual appropriations lapse at fiscal year end.

The Academy maintains a formalized encumbrance accounting system.

The Academy follows these procedures in establishing the budgetary data reflected in the financial statements:

- A. The Management Organization submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth in the combined statement of revenues, expenditures and changes in fund balances – budget and actual – general fund and special revenue funds.
- B. Public hearings are conducted to obtain local public comments.
- C. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act. The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will

CRESCENT ACADEMY
Notes to the Financial Statements
June 30, 2007
(Continued)

not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, or in excess of the amount appropriated. Any expenditures in violation of the budgeting act are disclosed as unfavorable variances in the budgetary comparison schedule – general fund and special revenue fund.

- D. The management company is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
- E. Formal budgetary integration is employed as a management control device during the year for the general fund and special revenue fund.
- F. The budget as presented, has been amended. Supplemental appropriations were made during the year with the last one approved prior to June 30th.
- G. The Academy had one significant expenditure budget variance.

For the fiscal year ended June 30, 2007, expenditures exceeded appropriations in the following fund account:

<u>Functions</u>	<u>Amount by which expenditures exceeded appropriations</u>
Support - General Administration	\$67,545

CRESCENT ACADEMY
Notes to the Financial Statements
June 30, 2007
(Continued)

Note 3. Deposits and Restricted Investments

The Academy is governed by the deposit and investment limitations of Michigan State law which are indicated in the Summary of Significant Accounting Policies reported earlier. Under the terms of the Certificates of Participation debt agreement, certain investments are required to be restricted. The deposits and investments held at June 30, 2007, and reported at fair value, are as follows:

Type	Rating	Maturities	Carrying Value
Unrestricted Deposits			
Deposits:			
Cash on hand			\$ 300
Demand deposits			<u>719,172</u>
Total Unrestricted Deposits			<u>719,472</u>
Restricted Investments:			
U.S. Treasury & Agency Obligations	Aaa	Various	34,785
U.S. Treasury & Agency Obligations	Aaa	Various	<u>538,276</u>
Total Deposits and Restricted Investments			<u><u>\$ 1,292,533</u></u>
Reconciliation to Statement of Net Assets:			
Current:			
Cash and Cash Equivalents			\$ 719,472
Noncurrent:			
Investments - Debt Service			557,298
Investments - Capital Projects			<u>15,763</u>
Total Deposits and Restricted Investments			<u><u>\$ 1,292,533</u></u>

CRESCENT ACADEMY
Notes to the Financial Statements
June 30, 2007
(Continued)

Interest Rate Risk

In accordance with its investment policy, the Academy will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates by; structuring the investment portfolio so that the securities purchased can mature immediately when funds are needed to meet operating needs (sweep account). This avoids the need to sell securities in the open market, and investing operating funds primarily in short term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Academy's cash requirements.

Credit Risk

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). At June 30, 2007, the Academy had no rated investments in commercial paper or corporate bonds.

Concentration of Credit Risk

The Academy will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Academy's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the even of a bank failure, the Academy's deposits may not be returned to it. As of June 30, 2007, \$0 of the Academy's bank balance of \$25,000 was exposed to custodial credit risk because it was covered by federal depository insurance. The FDIC insures bank deposits up to \$100,000.

CRESCENT ACADEMY
Notes to the Financial Statements
June 30, 2007
(Continued)

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Academy minimizes custodial credit risk by limiting investments to bank investment pools invested in U.S. Government Obligations and pre-qualifying the financial institution with which the Academy will do business. Of the investments in U.S. Treasury and Agency Obligations and Money Market Funds of \$1,187,584, the Academy has a custodial credit risk exposure of \$1,187,584 because the related securities are uninsured and unregistered.

The Academy will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Academy will do business.

Foreign Currency Risk

The Academy is not authorized to invest in investments, which have this type of risk.

Note 4. Receivables

Receivables as of year-end were as follows:

	<u>General</u>
Receivables	
Other	\$ 1,125
State aid	425,745
Federal	<u>24,044</u>
Net total receivables	<u><u>\$ 450,914</u></u>

All receivables were deemed collectible as of June 30, 2007.

CRESCENT ACADEMY
Notes to the Financial Statements
June 30, 2007
(Continued)

Note 5. Capital Assets

Capital asset activity for the Academy for the current fiscal year was as follows:

	Balance <u>July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2007</u>
Capital assets not being depreciated:				
Land	\$ -	\$ 287,960	\$ -	\$ 287,960
Capital assets being depreciated:				
Building	-	4,714,460	-	4,714,460
Computers	192,391	27,294	-	219,685
Furniture, fixtures, and equipment	151,793	87,656	-	239,449
Leasehold improvements	100,203	51,979	-	152,182
Subtotal	444,387	4,881,389	-	5,325,776
Total capital assets	444,387	5,169,349	-	5,613,736
Less accumulated depreciation for:				
Building	-	94,289	-	94,289
Computers	62,484	51,659	-	114,143
Furniture, fixtures, and equipment	10,982	10,679	-	21,661
Leasehold improvements	5,347	6,081	-	11,428
Subtotal	78,813	162,708	-	241,521
Net capital assets being depreciated	365,574	4,718,681	-	5,084,255
Other assets:				
Certificates of Participation issuance costs	-	564,880	-	564,880
Accumulated amortization	-	(9,905)	-	(9,905)
Subtotal	-	554,975	-	554,975
Net governmental capital assets and other assets	\$ 365,574	\$ 5,561,616	\$ -	\$ 5,927,190

CRESCENT ACADEMY
Notes to the Financial Statements
June 30, 2007
(Continued)

Depreciation and amortization for the fiscal year ended June 30, 2007 amounted to approximately \$172,613. Depreciation and amortization was charged to programs of the primary government as follows:

Governmental Activities:

Instruction	\$ 27,628
Support	98,318
Unallocated	46,667
	<u>\$ 172,613</u>

Note 6. Interfund Transfers

The transfers from the General Fund were made to support the debt payments being paid out of the Debt Service Fund and to support expenditures being paid out of the Lunch Fund.

Transfer in:

	<u>General</u>	<u>Food Service Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
Transfer out:				
General Fund	\$ -	\$ 11,201	\$ -	\$ 11,201
Capital Projects	280,034	-	522,513	802,547
Debt Service Fund	<u>10,914</u>	<u>-</u>	<u>-</u>	<u>10,914</u>
Total	<u>\$ 290,948</u>	<u>\$ 11,201</u>	<u>\$ 522,513</u>	<u>\$ 824,662</u>

Note 7. Long-Term Debt

The Academy issues Certificates of Participation (COP) and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. The COPs are direct obligations and pledge the full faith and credit of the Academy. Other long-term obligations include capital leases.

In December 2006, the Academy issued \$7,090,000 of Certificates of Participation. This was obtained by Dr. Charles Drew Academy acting as a conduit financier to enable Crescent Academy to finance the purchase of its school building. The Academy's obligation is absolute and unconditional in all events and that each Crescent purchase payment is payable without any right of set-off or counterclaims.

CRESCENT ACADEMY
Notes to the Financial Statements
June 30, 2007
(Continued)

Long-term obligation activity can be summarized as follows:

Governmental Activities	Balance 7/1/06	Additions	Reductions	Balance 6/30/07	Due Within One Year
2006 COPs	\$ -	\$ 7,090,000	\$ -	\$ 7,090,000	\$ -
Total COPs	-	7,090,000	-	7,090,000	-
Capital Leases	727,259	100,000	727,259	100,000	100,000
Total	\$ 727,259	\$ 7,190,000	\$ 727,259	\$ 7,190,000	\$ 100,000

The annual requirements to service the bonds and capital lease obligation, including principal and interest are as follows:

	Governmental Activities		
	Principal	Interest	Total
2008	\$ 100,000	\$ 413,174	\$ 513,174
2009	-	407,675	407,675
2010	-	407,675	407,675
2011	105,000	404,656	509,656
2012	110,000	398,475	508,475
2013-2017	660,000	1,886,575	2,546,575
2018-2022	875,000	1,666,781	2,541,781
2023-2027	1,170,000	1,374,250	2,544,250
2028-2032	1,560,000	985,263	2,545,263
2033-2037	2,610,000	449,938	3,059,938
Total	\$ 7,190,000	\$ 8,394,462	\$ 15,584,462

CRESCENT ACADEMY
Notes to the Financial Statements
June 30, 2007
(Continued)

Governmental Activities:

The Academy has outstanding leases for the acquisition of fixed assets and textbooks. Long-term debt is as follows:

Long-term obligations currently outstanding are as follows:

Helicon Assoc. lease due in monthly installments of \$8,792 through June 1, 2008; interest is 10%	\$ 100,000
Revenue and Refunding Bonds with semi-annual installments through December 1, 2036. Interest stated at 5.75% with interest only payments thru June 1, 2010.	7,090,000
	<hr/>
Total long-term debt	<u>\$ 7,190,000</u>

Note 8. Operating Lease Agreement

The Academy was leasing its classroom facilities under a non-cancelable operating lease agreement which had a term of eight years beginning July 1, 2004 through June 30, 2012. The lease covered property located at 17570 West 12 Mile Road, Southfield, Michigan. The lease agreement contained a purchase option which was exercised in the current year. The building at the above location was purchased by the Academy on December 20, 2006. Lease expense for the first six months of the 06/07 school year was approximately \$300,460.

Note 9. Revenue Anticipation Note

Crescent Academy has an outstanding revenue anticipated note of \$1,050,000, with interest of 7.56% to assist with operational cash flows prior to the receipt of state aid payments. The note is secured by funding provided from the State of Michigan's foundation grant revenue. The balance at June 30, 2007 was \$286,364 with a maturity date of August 31, 2007. A new note was obtained by the Academy in the amount of \$777,727 with an interest per annum at a rate equal to the bank's prime rate from time to time in effect minus ½% per annum until maturity October 1, 2007.

CRESCENT ACADEMY
Notes to the Financial Statements
June 30, 2007
(Continued)

The following is a summary of revenue anticipation notes of the Academy for the year ended June 30, 2007:

	Balance 7/1/06	Additions	Reductions	Balance 6/30/07
2005-2006	\$ 127,891	\$ -	\$ 127,891	\$ -
2006-2007	730,273	319,727	763,636	286,364
2007-2008	-	777,727	-	777,727
Total	<u>\$ 858,164</u>	<u>\$ 1,097,454</u>	<u>\$ 891,527</u>	<u>\$ 1,064,091</u>

Note 10. Purchased Services

The Academy leases all employee services from MJ Management Services, Inc. Salaries, retirement, social security, health insurance, and unemployment taxes are the responsibility of this management company.

Note 11. Management Company

Helicon Associates, Inc. provides management services under a Consultancy Services Agreement, which commenced on July 1, 2004 and shall expire on June 30, 2007. The management company's fees are equal to 10 percent (10%) of the product of the Academy's state school aid basic foundation allowance multiplied by the number of full time equated pupils enrolled and in regular daily attendance on the pupil membership count day for the current school year. During the year ended June 30, 2007, the Academy incurred expense of approximately \$227,310 for management fees.

Note 12. Oversight fees

The Academy pays an administrative oversight fee of 3% of its state school aid discretionary and proposal A obligation payments to the Bay Mills Community College, as set forth by contract, to reimburse the University for the cost of execution of its oversight responsibilities. These oversight responsibilities include the monitoring of the Academy's compliance with the terms and conditions of the contract, and the review of its audited financial statements and periodic reports. During the year ended June 30, 2007, the Academy incurred expense of approximately \$70,258 for oversight fees.

Note 13. Risk Management

The Academy is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employee's and natural disasters.

The Academy continues to carry commercial insurance for other risks of loss.

CRESCENT ACADEMY
Notes to the Financial Statements
June 30, 2007
(Continued)

Note 14. Related Party Transactions

There were members of the board who were also employees or subcontractors of the management company. Subsequent to the year end, the board of directors was dismissed of their duties and a new board was appointed by the oversight agency.

The Academy was leasing it's facility from SAAS Development, LLC. The owner and two employees of the Academy's management company were investor members of that LLC. In December 2006, the building was purchased by the Academy.

Note 15. Subsequent Events

The Academy entered into a Consultancy Services Agreement with Helicon Associates, Inc. dated January 18, 2007. On April 17, 2007 the Bay Mills Community College Board of Regents ("College Board") issued a Notice of Intent to Revoke the Contract to Charter a Public School Academy issued by the College Board to Crescent Academy dated August 1, 2004. On August 8, 2007 the Crescent Academy Board received notice from the College Board that the Plan of Correction proposed to remediate the deficiencies described in the Notice of Intent to Revoke required the termination of the Consultancy Services Agreement with Helicon Associates, Inc. The Crescent Academy Board subsequently authorized its legal counsel to notify Helicon Associates, Inc. of Crescent Academy's intent to terminate the Consultancy Services Agreement for cause, and to enter into negotiations with Helicon Associates, Inc. of an agreement, consistent with the College Board's Plan of Correction, that would allow for the orderly transition of school management to a new Educational Service Provider. In the course of these negotiations Helicon has made demand for payment of \$95,000 representing amounts that it contends were advanced for payroll in August 2007 and amounts due under an equipment lease. Crescent contests these amounts. A forensic accountant has been retained by Bay Mills for the purpose of determining the validity of this amount, as well as to determine whether there are offsetting amounts due and owing the Academy as a result of Helicon's actions under the Consultancy Services Agreement. As of this date, the parties continue to negotiate this dispute and it is not clear whether it will require arbitration pursuant to the terms of the Consultancy Services Agreement.

REQUIRED SUPPLEMENTARY INFORMATION

Crescent Academy
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with final budget Favorable (Unfavorable)</u>
Revenues:				
Local sources	\$ 37,000	\$ 38,750	\$ 43,634	\$ 4,884
State sources	2,371,735	2,340,566	2,340,533	(33)
Federal sources	110,036	119,888	108,091	(11,797)
Total revenues	<u>2,518,771</u>	<u>2,499,204</u>	<u>2,492,258</u>	<u>(6,946)</u>
Expenditures:				
Current:				
Instruction:				
Basic programs	762,692	912,948	887,575	25,373
Added needs	118,377	141,211	134,849	6,362
Total instruction	<u>881,069</u>	<u>1,054,159</u>	<u>1,022,424</u>	<u>31,735</u>
Support services:				
Pupil	27,500	44,000	37,301	6,699
Instructional staff	13,616	18,340	6,407	11,933
General administration	263,652	280,517	348,062	(67,545)
School administration	215,924	282,505	277,033	5,472
Business	191,366	365,352	363,950	1,402
Operations/maintenance	610,729	622,612	622,024	588
Transportation	164,620	247,877	236,288	11,589
Central	16,500	32,500	31,448	1,052
Total support services	<u>1,503,907</u>	<u>1,893,703</u>	<u>1,922,513</u>	<u>(28,810)</u>

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with final budget Favorable (Unfavorable)
Expenditures (concluded):				
Community service	15,206	12,182	11,481	701
Debt service:				
Principal retirements	107,976	-	-	-
Total expenditures	<u>2,508,158</u>	<u>2,960,044</u>	<u>2,956,418</u>	<u>3,626</u>
Excess (deficiency) of revenues over expenditures	<u>10,613</u>	<u>(460,840)</u>	<u>(464,160)</u>	<u>(3,320)</u>
Other financing sources (uses):				
Operating transfers out	(5,000)	(17,500)	(11,201)	6,299
Operating transfers in	-	287,318	290,948	3,630
Lease proceeds	-	100,000	100,000	-
Total other financing sources (uses)	<u>(5,000)</u>	<u>369,818</u>	<u>379,747</u>	<u>9,929</u>
Net change in fund balance	5,613	(91,022)	(84,413)	6,609
Fund balance:				
Beginning of year	118,738	118,738	118,738	-
End of year	<u>\$ 124,351</u>	<u>\$ 27,716</u>	<u>\$ 34,325</u>	<u>\$ 6,609</u>

ADDITIONAL INFORMATION

Crescent Academy
Budgetary Comparison Schedule
Food Service Fund
Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance with Final budget Favorable (Unfavorable)
Revenues:				
Local sources	\$ 5,150	\$ 6,350	\$ 6,451	\$ 101
State sources	203	1,419	1,419	-
Federal sources	27,997	44,731	48,942	4,211
Total revenues	33,350	52,500	56,812	4,312
Expenditures:				
Food service	38,350	70,000	68,013	1,987
Total expenditures	38,350	70,000	68,013	1,987
Excess (deficiency) of revenues over expenditures	(5,000)	(17,500)	(11,201)	6,299
Other financing sources (uses):				
Operating transfers in	5,000	17,500	11,201	(6,299)
Total other financing sources (uses)	5,000	17,500	11,201	(6,299)
Net change in fund balance	-	-	-	-
Fund balance:				
Beginning of year	-	-	-	-
End of year	\$ -	\$ -	\$ -	\$ -

DARNELL & MEYERING, P.C.

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MEMBERS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
MICHIGAN ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS

Board of Directors
Crescent Academy
Southfield, Michigan 48883

We have audited the financial statements of Crescent Academy, as of and for the year ended June 30, 2007, and have issued our report thereon dated November 1, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Crescent Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Crescent Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control

deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Academy's financial statements that is more than inconsequential will not be prevented or detected by the Academy's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

2007 – 1 Finding:

The Academy has hired a management company to provide bookkeeping and accounting services which includes cash disbursements and the maintaining and reconciling of all bank accounts. In our assessment of internal controls, we found there was not adequate segregation of duties in the accounts payable process among the two persons involved. There is no independent verification and approval of the source documents to support expenditures charged to the Academy

Response:

The Academy has retained a new management company for the 2007/2008 school year and will now be under new internal control procedures.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Crescent Academy's statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. These certain matters are reported to management of Crescent Academy in a separate letter dated November 1, 2007.

This report is intended solely for the information and use of management, others within the Academy, the Michigan Department of Education, Michigan Department of Treasury and ISD and is not intended to be and should not be used by anyone other than these specified parties.

DARNELL & MEYERING, P.C.

A handwritten signature in black ink that reads "Darnell & Meyering, PC". The signature is written in a cursive, flowing style with a large initial 'D' and 'M'.

November 1, 2007